This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L HARARE 000325

SIPDIS

AF/S FOR BNEULING
EB/IFD FOR FCHISHOLM
NSC FOR SENIOR AFRICA DIRECTOR C. COURVELLE, D. TEITELBAUM
TREASURY FOR OREN WYCHE-SHAW,
STATE PASS USAID FOR MARJORIE COPSON
ALL AFRICAN DIPLOMATIC POSTS

E.O. 12958: DECL: 12/31/2009
TAGS: ETRD PGOV ZI ECON EINV
SUBJECT: COKE TO NEGOTIATE NEW PRICE

Classified By: Ambassador Christopher Dell for reason 1.4 b/d

¶1. (C) Summary: Producing a price-controlled commodity, Coca-Cola's local subsidiary will now resume negotiations with the GOZ's Ministry of Trade and Industry over the cost of its hallmark drink. Coke country manager Togi Chinoda told Econoff on February 22 that the company now loses money on each drink it sells. End Summary.

How much for the "real thing"? Depends on exchange rate

¶2. (C) Chinoda said the price of coke is still set by the GOZ. (N.B., the GOZ established retail prices for almost all goods until mid-2003.) Chinoda said he negotiated a Z$ 2,000/bottle price with the GOZ last October, but inflation has eroded the company,s profit margin.

¶3. (C) At the official exchange rate of Z$ 6,000:US$, Chinoda said each bottle runs about US$.33, far in excess of the US$.18-22 Coke charges in neighboring countries. However, Chinoda insisted that the official exchange rate offers a distorted picture of his operations. Coke must convert its zimdollar revenue into U.S. dollars at parallel rates in order to cover most expenses, since the company rarely acquires foreign exchange through Reserve Bank auctions. When converting the Z$2,000/bottle price at the current parallel rate of Z$12,000:US$, the beverage costs less than US$.17, below its regional pricing range.

But it,s still not enough to cover costs

¶4. (C) Chinoda said Coke is actually losing money on every bottle it sells. He estimated the cost per bottle as nearly US$.20. Because of the high cost, Chinoda said Coke now puts off buying inputs until the last minute and sometimes endures shortages. The firm has stopped selling beverages in disposable bottles, as it loses even more money when the imported plastic is taken into account. Chinoda said he is now down to a two-day supply of bottle tops, which are imported from South Africa, although company guidelines require subsidiaries to keep a three-week stock on hand. "After the election, we just hope the official exchange rate goes up," Chinoda added, since a more realistic exchange rate would help Coke lobby for a higher zimdollar price.

¶5. (C) The Coke representative said he does not want to increase the Z$1,500 bottle deposit. He frets Zimbabweans would begin hoarding bottles as a rare savings vehicle in this high inflation environment, adding to his woes.

Comment

¶6. (C) Coke,s problems exemplify what is wrong with the GOZ's interventionist economic policy, where bureaucrats determine how much foreign exchange a company is allotted and what soda pop should cost. In 2003, Colgate-Palmolive gave up trying to manufacture toothpaste here and now imports it from South Africa. If the GOZ does not loosen its grip on the business sector, Coke could follow suit.
DELL